

ERP Multi-site – It can, can you?

The concept of implementing multi-site ERP can seem very attractive but the stumbling blocks in many projects are often to do with company culture, not the software.

Having been involved in many projects that are multi-site, both within and beyond country borders experience has demonstrated that the greatest challenges to a successful ‘genuine’ multi-site implementation is more to do with a change of mindset within the company than the capability of the software.

If you are managing a multi-site, multi-country business and you are considering implementing a new ERP business system then one of the key benefits presented will be the opportunity to place all your ‘businesses’ into a single ‘entity’.

On the face of it this is a very attractive proposition. It will allow you, as owners or directors of the business, to sit atop of your organisation and see in real, or near real-time, the profitability of your operations. More importantly it allows you to standardise across your whole business the way you want to do things by having the same processes wherever you operate.

This ability to deliver standardised business processes will allow you to drive best practice across your organisation and will assist you in becoming a world class organisation.

Furthermore, if you are currently using multiple business systems across each of your sites it is likely at a technical level that you will save money simply on hardware and software costs. Better to have a single data centre running your business system rather than many across the world.

The real ‘holy grail’ though, for many people, will be the idea that you will move from issuing purchase orders and sales orders, and all the associated re-keying, printing, sending etc, of inter-company transactions and remove the practice of elimination for inter-company financials.

A show stopper....

Of course not all ERP software is the same. You may have read my paper ‘ERP Selection’ at <http://www.neustro.com/whitepapers.aspx> where I argue that you shouldn’t spend too much time on software evaluation as most ERP is very similar in its functionality. If you are looking at multi-site, multi-country then I would make an exception for this particular element of the functionality.

An example of a particular issue that stymied a genuine multi-site, multi-country implementation is around standard costing. A company, which shall remain nameless, was sold a particular ERP by a particular software vendor, which will similarly remain nameless, that they touted as being the answer to their problems.

Although the software does what it says on the box it didn't suit the customer in the end because it did it in such a way that would affect the way the business accounted for profitability across its business units. The ERP software had the limitation that it could only hold one 'Standard Cost' across the whole implementation.

This in theory is fine until you realise the potential implications of it. For those who need reminding the concept of a standard cost is that you establish the cost of buying or producing an item. For the purposes of this discussion let's look at a manufactured item. The cost of the item will be made up of the purchase price of the materials, the cost of putting the materials together (machine and labour) and, typically, surcharges or additional costs related to overhead. The practice is then to measure variances between what the standard cost has been calculated as, and what the reality is. This will give you an indication as to where things may be going wrong. In the example I allude to, the same product was made in the UK and also in China. Clearly there is a significant difference in labour costs between the two countries. The standard cost was to be generated in the UK and used as the base line measure of the efficiency of the business. Why? Well the software in question had only one standard cost rather than the ability to have a standard cost by site. The upshot of this was that the Chinese would end up reporting huge variances all the time in relation to, particularly, labour costs. The result would have been that additional reporting and posting of journals to 'correct' the results and show the 'real' standard cost. It soon became apparent that it would not be sustainable and the implementation was actually made under the model of separate instances of the software for each location. In effect one of the key drivers of unified reporting was not achieved in the way originally planned and also the overall technical administration of the business system became more complicated. For the record, Microsoft Dynamics AX2009 **does** allow separate standard costs to be maintained at a site level.

Technical....

I'll be brief here. Be very careful with your hardware and network topology. Make sure that the kit that the software is going to run on is up to the job and that the connectivity across your wide area network is fast and large enough. It is likely that if you are going for a single instance for your multi-national implementation then it will sit in a data-centre somewhere and people will connect to it from across the world.

Most vendors and partners will provide sizing guides for their software – also ask for references you can speak to where similar implementations have been carried out. We have seen, and have had to remedy as a company, installations where the UK would be operating just fine until the USA woke up and logged into the business system. At this point it would become unusable as the users saw the movement from field to field in a sales order entry screen take up to 20 seconds – clearly affecting sales.

Culture....

All of the above commentary is, sadly, not the definitive list of things to watch out for when considering a multi-site, multi country ERP implementation. There are, amongst other issues to consider, the availability of country localisations and even language support. However, the main thrust of this paper is to do with the culture of organisations. Sorry you had to wait to the third page before I detailed this but I suspect that the foregoing was useful.

To repeat myself, the challenge can be, but is not always, about how you do business – what is the culture? I am not talking about national cultures right now; I have an entry on my blog at <http://neustro.vox.com/> that discusses the impact of these at a high level. I will write a whitepaper on this subject at a later date (or if you need to understand more right now then feel free to contact me).

If you have a business that is currently highly homogeneous across the world with the same processes then you may find multi-site, multi-national ERP easy. This profile of company is often the result of organic growth, wholly owned subsidiaries and a highly centralised management structure. It is also likely that sites are ‘operation’ specific. By this I mean that a site in a country will be geared towards manufacturing whilst the sales and purchasing activities are carried out elsewhere.

Some businesses work on the model of what I’ll call ‘Site Entrepreneurialism’. This is where each entity, which can sometimes be a single site, several sites or a ‘country’ run their business from top to bottom with their own balance sheet and profit and loss. These businesses will be complete within themselves; sales department, purchasing, manufacturing, warehousing etc. They will have strong management and will be responsible for delivering performance within their own unit as the overarching management philosophy will be to have many of these units to build to aggregate success.

This is one of the hardest models to implement multi-site ERP into. Typically these businesses are also part of an internal supply chain. One site supplies raw materials to another for conversion. An example would be in the forest products industry of corrugated packaging. The paper mill buys in pulp and produces paper, the corrugating plant buys in paper and makes sheets of cardboard and a conversion plant buys in the sheets of cardboard and turns them into boxes. If judged end to end as an entire process, from pulp to box, there is the possibility to measure the value and profit of the product within a single entity. However, the business is split into paper mills, corrugating plants and converters (there is more complexity but I won’t go into that here) and each of these entities are responsible for their own profitability. This will and does result in business units within the same enterprise negotiating with each other, shifting, and sometimes losing, value (i.e. profitability) between the same company. The implementation of multi-site ERP into such an organisation is fraught with difficulty because no one will agree to the rules which will be needed to make it work. It may be possible that a customer will place an order for a cardboard box but how will you agree to split the production costs and profit between the entities in the supply chain? Unless you seek to remove the strong management that fiercely guards its operations and profitability then the arguments will rage as to who made the profit and that the ability to be entrepreneurial is neutered.

Ultimately this sort of business will implement the same system into multiple businesses but each with their own balance sheet and P&L. Reporting will be aggregated across the companies rather than 'up' into a master company.

And more culture....

Even if your company does not feature the characteristics of this 'internal' supply chain but it is still international, you will still have challenges implementing across borders. If you are implementing across more than one country, even if you are going to settle on individual company instances, take time to recognise the way culture affects the way business is done. I have witnessed many projects where a country organisation, usually the home of the HQ, develops the business model and its processes and then attempts to roll this out across its international organisation. In the cases where the 'subsidiary' countries have been ignored there has almost always been a need to readdress and realign the business model and processes to make it fit into the organisation. This in some cases can simply be addressing the structure of the chart of accounts or in others having completely different businesses processes because the way in which the culture operates requires it. An example would be that in some countries a formal RFQ (Request for Quotation) process is followed whereas in others a phone call followed by a purchase order is the way to do business.

Conclusion....

If you were coming to this document to find definitive answers to your multi-site, multi-country ERP implementation challenges then I am sorry to have very likely disappointed you. It is clearly a complex matter. However, I hope that I have got one message across and it's this: Yes, many ERP's can do multi-site and multi-country, but can you?

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About the Author: Martin has worked as an IT consultant for Deloitte and Touche and also as the European IT Director for Mondi Packaging, a division of the FTSE listed company, Anglo American. He has overseen both growth and downsizing of large IT departments and managed IT outsourcing arrangements.

About Neustro: Neustro are the business systems experts - design, implement, manage and support IT for business - from e-mail to ERP. From one-off projects to a complete outsourced service. Neustro are specialists in Microsoft Dynamics AX and Infor Baan.